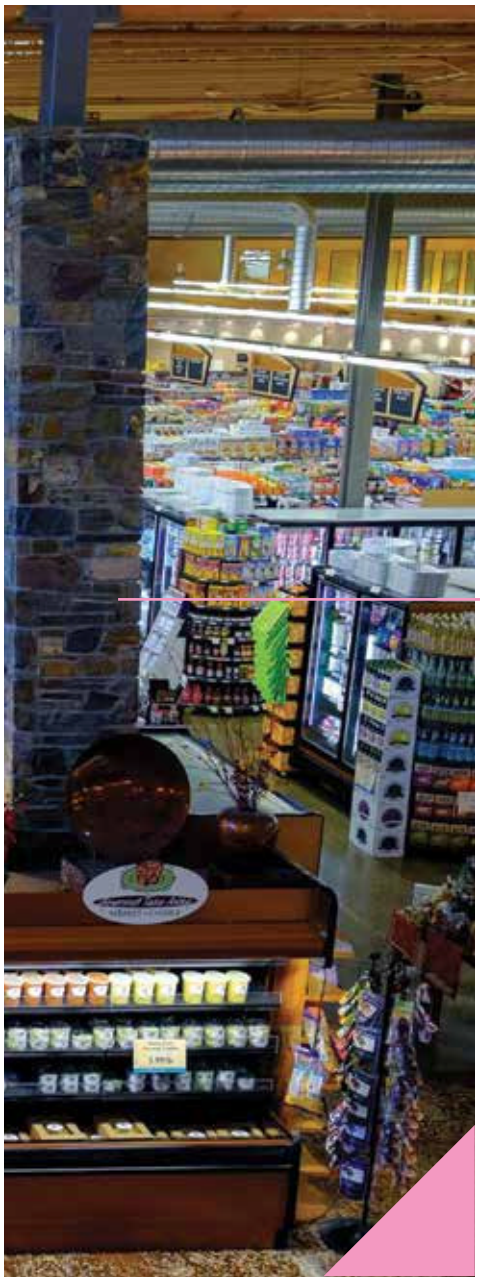

Optimising a Brand's Offering in a Market of OVERWHELMING CHOICES

» By Robin de Rooij & Bill Salokar

Freedom of choice. On the surface it sounds like a good thing, and in market research respondents unequivocally say they prefer to have choices. But with choice comes complexity.

Anyone who's shopped for a car knows this all too well. Diesel, gas, electric, or hybrid? Full-size, mid-size, compact, or subcompact? Which make is more reliable? Which model is best? And then there's exterior and interior colour, entertainment and communication options, and so on.

This dizzying array of options in cars and just about every other product and service today creates a decision dilemma: Consumers find it difficult to choose and even fear making the wrong decisions. Paradoxically, freedom of choice and the complexity it brings can be paralysing.

So, in a market full of choices, how can a brand optimise a product or service to give consumers the freedom to choose without creating decision dilemmas – while benefiting the bottom line? That's what a telecom company asked SKIM researchers to help them figure out.

Freedom of choice vs predefined packages

The company offers phone, Internet, and TV in simple, predefined packages, or bundles, as is typical of the telecom industry. Each bundle is tiered for level of performance or features and price: The lowest tier provides basic Internet, phone,

and TV; the mid-tier provides more robust service; and with the highest tier, customers get very fast Internet, unlimited calling, and lots of TV channels.

This range of only three options was easy for customers to assess. However, the company was considering offering more freedom of choice by letting customers assemble their own bundles. For example, a customer could choose the fastest Internet, mid-tier phone, and basic TV.

How might this increase freedom impact the company's revenue? With predefined packages, some customers are paying for a level of TV or phone they might not want in order to get the Internet speed they do want. Customers might embrace their increased freedom by spending less per month. On the other hand, if people prefer choice as much as they say they do, could the company use expanded options to win over customers from its competitors?

Unraveling the issue

To get at the answers the telecom company needed, several things had to be determined. First, would there in fact be a preference for customising? When presented with predefined packages and the ability to customise their own bundles, respondents clearly favoured customising. Next, would customizing reduce the average monthly expenditure compared with the company's current offering? The results showed that it would. At first glance, it doesn't seem to make sense for the company to offer this much choice. But this is not the whole story.

Consumers have preferences not only for products but also for providers. To understand the offer's effect on market share, it had to be presented in a competitive landscape, not in isolation. The model used randomised the offerings (predefined packages only, freedom of choice only, or both) among providers. The results showed that the company could nearly triple its sales – and revenue – with freedom of choice.

Offering choice was a good move for this telecom company, not just because it satisfies consumers' preferences without overwhelming them, but because improved understanding of those preferences led to a positive effect on the company's revenue.

What does choice mean?

In the design of market research, specific questions about product mix and pricing depend on understanding people's concepts of choice. Sheena Iyengar, the S. T. Lee Professor of Business in the Management Division at Columbia Business School, is one of the world's leading experts on choice, and she argues that cultural factors are essential to understanding both basic marketing principles and specific research findings.

For example, consumers only consider choice to be valuable when they can meaningfully distinguish between the options being offered. Being permitted, or compelled, to choose among a vast selection of things that seem essentially similar might inhibit choice or even lead to rejection of the opportunity to choose.

This precept took on added meaning for Dr. Iyengar after a research meeting with a group of Eastern Europeans, accustomed to very little consumer choice. When presented with a selection of seven sodas, these consumers interpreted their choice as binary: soda versus not-soda. The differences between these products were far less meaningful to them than the qualities they shared. Where a Westerner might see this offering as thoughtful (or unremarkable), this group found the choice artificial and meaningless.

Who chooses?

Unsurprisingly, Dr. Iyengar's research has found that Americans believe the primary locus of choice is the individual. In one study, Anglo-American children completed more puzzles more accurately when permitted to choose the puzzles. By contrast, American children of Asian immigrants performed better when they believed that their mothers had chosen the puzzles.

The act of choice implies the workings of an individual mind, but for some people, the choice to accede to the preferences of

others is a way to establish or strengthen relationships. When individuals conceive of their choices and the outcomes of those choices as connected to the actions of others, they may choose to choose deferentially or collectively. These individuals will not welcome opportunities to choose independently and may consider them socially disruptive.

From the research, we learn that it is important for marketers to think about culture and potentially other factors that affect the psychology of choice. Ultimately, we need to understand that different consumers perceive choice differently and it is important to study and understand how these different options are perceived.

Increasing telecom choice

Singapore offers an example of freedom of choice in telecom services that goes beyond the case described above. Singtel, a large conglomerate with substantial market share in the mobile and broadband markets, is currently offering a very flexible plan under which consumers can choose different combinations of messages, data, and outgoing talk time. (Incoming talk time is free.)

Customers purchase a quantity of "units" for a fixed amount each month. These units can be allocated to three options. A single unit can be used for 25 minutes of talk time, 250 messages, or 0.25GB of data.

In addition, consumers can change their selection from month to month, with nearly complete control over what they are paying for. The question is, as we identified earlier, how this option would be perceived; whether this is more flexibility and freedom than people will find useful.

The effort required to reallocate the plan on a monthly basis might outweigh any possible savings or feelings of control. If the consumer chooses not to reallocate the units regularly, then the features of other plans may become more attractive by comparison.

Trends and considerations in different markets

Whether increasing choice is the right move in another market depends on what's happening in that market – are consumers pushing for more alternatives or more simplicity? Many automakers, for instance, are trying to strike a balance between the two by figuring out the best way to bundle certain options. The ultimate balance any company should aim to strike is the one between the ideal portfolio structure for consumers and its impact on sales and revenues. That takes asking the right questions for the specific market and arriving at actionable answers through sound research methodology.

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